

City of Rockville Retirement Board

January 22, 2010

PRESENT: Alex Espinosa, Chairperson; Gregory Hazlett, Citizen Representative; Anita McCombs, AAME Representative; Cpl. Chris Peck, FOP Representative; Kyle France, Union Representative; Mark Pierzchala, Councilmember; and Carlos Vargas for the City Manager. Also in attendance were Gavin Cohen, Executive Secretary to the Board; Tim Peifer, Financial Systems Manager; Daisy Harley, Personnel Administrator; Debra Daniel, City Attorney; as well as Jeffrey Snyder and Taylor Dabrowski, Segal Advisors.

The meeting commenced at 10:00 a.m. with introductions.

I. Approval of Minutes November 20, 2009:

Councilmember Pierzchala requested that in the first sentence of Item II the wording be changed from letter terminating to a letter of intent to terminate and to correct the spelling of Segal on page 3 above Item III. Mr. Espinosa asked for a motion to approve as per the changes. Cpl. Peck seconded. All were in favor.

II. Review FY 2010 Retiree Benefit Trust Actuarial Valuation Report:

Mr. Cohen started this item with a brief history of how the Retiree Benefit Trust was established. He explained previously to FY 2009 that it was funded on a pay-as-you-go basis and the due to the issuance of GASB 45 that the method of funding changed to pre-funding the benefit. In order to pre-fund this benefit the City started an irrevocable Trust in November 2008 and appointed the Retirement Board as Trustees to the Trust in December 2008. The full amount needed to fund the benefit at that time based on the actuarial valuation was \$1,307,000 for FY2009. The Mayor and Council approved contributing the full amount. In March 2009 the Trustees selected to invest the Trust proceeds with Manning & Napier Long Term Growth Strategy Fund.

GASB requires entities to have bi-annual actuarial valuation reports performed to determine the amount of annual contributions that is necessary to be placed in the Trust. The current Mayor and Council policy is to "achieve full funding over a five-year period." Mr. Cohen provided the FY2010 actuarial valuation report as prepared by Bolton Partners. The report reflects the City's required contributions for FY 2010, 2011, and 2012. Mr. Cohen arranged a conference call with Kevin Binder, the actuary that prepared the report from Bolton Partners to be available for questions.

Mr. Espinosa asked if the results of the valuation reflected that the annual contribution to fund would be \$166,000 and if the cost was \$996,000 for 2011? Mr. Binder said the short answer would be yes. Mr. Cohen said that because the Trust was fully funded in FY2009, that staff were going to recommend minimum funding in FY2010 of \$166,000 without PAYGO funding. FY2011 staff would again recommend minimum funding in line with the Mayor and Council policy. Mr. Binder said that he was using an experience study from the pension plan and didn't feel the results are valid for this report, and that the next time a study is done that the City should look at the experience as it relates to this specific benefit. Mr. Cohen mentioned that the actuary provided three alternatives to look at reducing the cost of the benefit, but that staff was not ready to make a recommendation yet. Those alternatives were capping the benefit, stopping the benefit for everyone going forward or stopping the benefit to new participants only. Mr. Cohen referred the Board to look at page 22 to see the breakdown in a summarized way of all the pertinent data.

Mr. Hazlett made a motion to accept the report as is. Councilmember Pierzchala seconded it. All were in favor.

III. Vendor Discussion: Principal and Segal-Benefit Index:

Mr. Cohen reviewed the current situations and discussions with both Segal and Principal. The Board requested that Segal make improvements. Mr. Cohen spoke several times to John DeMairo, Segal's Chief Operating Officer and he said he was prepared to do whatever was necessary to make the relationship work that was within his control. He agreed to all the areas the Board was requesting Segal to improve, other than paying for the cost of an actuarial review of the Principal Benefit Index calculation. He agreed to change Segal's lead consultant to Amy Heyel. Taylor Dabrowski and Jeffrey Snyder are working on the vendor search.

Next, Ms. Dabrowski and Mr. Snyder discussed the recent developments with the Principal Group. Mr. Cohen noted that the City attempted to engage in contract negotiations with Principal. Mr. Cohen noted that Principal is unwilling to revise the contract in any way. The have "off the record" offered to remove the 10% cushion from the Benefit Index calculation. In addition, the City of Rockville has requested that Principal adjust the liquidity factors that are utilized to calculate the Benefit Index. Principal was not willing to do this. Principal was willing to utilize a better contract provision to cost the benefit as specified in Mr. Brown's letter. The City of Rockville requested that Principal provide in writing that they would not take City assets for a breach of the Benefit Index for a period of time 90 or 180 days. They were unwilling to do this, but they state that they "would work with the City." The Board discussed the quote that Principal presented to the Board to purchase annuities outside of the Plan for the 88 participants in the Benefit Index. The quote was approximately \$12.7 million. However, from a liability standpoint (per the valuation) these are valued at approximately \$6 million. The Board has requested that Gavin engage an outside firm to audit the quote as potential negotiating power with Principal. The Board authorized up to a maximum of \$15,000 to perform the audit. Given the results, the Board will re-evaluate the situation and whether or not it makes sense to purchase annuities for these liabilities and relinquish the Benefit Index.

Ms. Dabrowski and Mr. Snyder went on to discuss the Vendor Search, which had been put on hold in the fall. Mr. Cohen has recommended to the Board that they expand the Vendor Search to include the DB Administration as well as the Thrift Plan. Mr. Snyder walked the Board through the process. Segal said they would need to send this out as a public bid. Then Segal discussed the GIC's. They recommended that as of March 31, 2010, when they are renewed, that the Board close them to new contributions and map to the Money Market account to ensure that if they make a change, the assets are as liquid as possible. The Board approved the recommendation. Segal said that they would need to inform Principal to send the communication. It was also discussed to allow the Board to give Segal authorization to work with Principal to understand what contract provisions Principal will actually impose. There is language about transfers that states "The Principal may or can impose restrictions.....:" After Mr. Cohen discusses with Principal the Board's intent to go out to bid, Segal has been instructed by the Board to get a complete understanding of what the Principal will actually impose in a transition to a new vendor. All were in favor.

IV. Thrift Plan Investment Policy Guidelines:

Mr. Cohen stated that the only changes to the policy is to replace the Principal MidCap Stock with the Principal MidCap S&P 400 Index Fund based on the decision by the Board at the October 15, 2009 meeting. This change was effective as of October 22, 2009. Councilmember Pierzchala made the motion to accept the change due to closing one fund and opening another. Mr. Hazlett seconded. All were in favor.

V. Vendor Search-Principal Financial Group:

Mr. Cohen stated that after talking to Mr. Snyder that it may not make sense to have a different vendor for the DB side of the Thrift Plan. He asked the Board if the search could be broadened to include the DB Plan as well? A consideration is that due to the Benefit Index money needs to be left for the 88 current retirees contractually bound to Principal. After much discussion by the Board Councilmember Pierzchala made a motion to broaden the RFP to include the DB side of the Thrift Plan and structure RFP multiple ways so that the Board could see all options available to them. The Board approved spending \$25,000 in addition to include the DB Plan as part of the vendor search. Mr. Hazlett seconded. All were in favor.

VI. Plan Design Changes:

Mr. Cohen stated that a study is underway with possible changes to the Plan to make it more sustainable and some of the elements are listed in the memo. These changes could be big money savers and are not applicable to the Police Plan. They are only applicable to the Administration and Union Plans. All the elements listed in the memo would be analyzed to determine what the savings could be to the plan. These elements would not affect the current retirees, but for the most part if approved would be implemented prospectively to new Plan participants.

Mr. Cohen said the next meeting would be on February 19, 2010. He said that Ms. Heyel from Segal would attend to give the review of the quarterly performance reports and the status of the RFP.

The meeting was adjourned at 11:35 a.m.